



# STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

# DRAFT

Date	09/03/13	Bill No:	<u><a href="#">Assembly Bill 576</a></u>
Tax Program:	Administration	Author:	V. Pérez
Sponsor:	BOE Chairman Horton	Code Sections:	GC 15910 - 15924
Position:	Support	Effective Date:	01/01/14

***This analysis only addresses the provisions that impact the BOE.***

## BILL SUMMARY

This bill creates a multiagency team among the Board of Equalization (BOE), Franchise Tax Board (FTB), Employment Development Department (EDD) and the Department of Justice (DOJ) to combat criminal tax evasion related to underground economic activity. The proposed Revenue Recovery and Collaborative Enforcement (RRACE) Team will authorize members and other participating agencies to exchange information for the purpose of investigating underground operations that are evading state taxes. This bill will formalize information sharing and communication regarding criminal tax evasion among participating agencies.

## Summary of Amendments

Since the previous analysis, amendments move the EDD from an advisory agency to a full member of the RRACE Team.

## ANALYSIS

### CURRENT LAW

Joint agency enforcement programs are established in law to combat the underground economy. These include the Joint Enforcement Strike Force (JESF) and the Labor Enforcement Task Force (LETf). Additional agency efforts include the BOE's Statewide Compliance and Outreach Program and the Contractor State License Board's Statewide Investigative Fraud Team.

### PROPOSED LAW

This bill adds and repeals Part 12.2 (commencing with Section 15910) to Division 3 of Title 2 of the Government Code to establish the RRACE Team as a pilot program. The proposed Team includes the BOE, FTB, EDD and DOJ, which will work cooperatively to pursue criminal tax evasion resulting from underground economic activities that evade state taxation. This bill authorizes members of the Team and other participating agencies to exchange information for the purpose of investigating underground operations that result in state tax evasion. The RRACE Team will investigate organized criminal entities and/or serial offenders for violation of tax laws.

The following agencies also may participate in the RRACE Team in an advisory capacity:

- California Health and Human Services Agency
- Department of Consumer Affairs
- Department of Industrial Relations
- Department of Insurance

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***This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.***

## Department of Motor Vehicles

Additionally, this bill:

- Allows authorized team representatives to exchange intelligence, data, documents, information, complaints, or lead referrals, related to criminal tax evasion associated with underground operations, notwithstanding any other law.
- Evaluates the benefits of a processing center to receive and analyze data, share complaints, and research leads from the input of each impacted agency.
- Develops a plan for a central intake process and organizational structure to document, review, and evaluate data and complaints.
- Provides participating and nonparticipating entities investigative leads to collaborate on felony-level criminal investigations.
- Requires the RRACE Team to provide a report to the Legislature by December 1, 2017, on the number of complaints processed and cases investigated or prosecuted, as a result of Team collaboration.

Funding is not provided in this bill. The scope of activities and projects undertaken will be consistent with the funds appropriated by the Legislature.

This proposed statute would sunset on January 1, 2019.

#### IN GENERAL

The underground economy refers to those individuals and businesses that deal in cash and/or use other schemes to conceal their activities, identities and true tax liability. Activities range from the sale of stolen or counterfeit products to the exploitation of human trafficking victims.

Last year's [SB 1185](#) (Price) proposed a Centralized Intelligence Partnership. That bill was held on the Assembly Appropriations Committee's suspense file.

#### COMMENTS

1. **Sponsor and Purpose.** The Board of Equalization supports the creation of the RRACE Team as a collaborative, strategic, effort to combat tax evasion resulting from activities in the underground economy through comprehensive data and resource analysis. This collaborative effort is intended to significantly increase the efficiency and effectiveness of the BOE's efforts to recapture revenue lost to illegally operating businesses, thereby resulting in a more robust, legitimate economy.
2. **The September 3, 2013 amendments** move the EDD from an advisory agency to a full member of the RRACE Team. **The August 12, 2013 amendments** removed the preliminary legislative reporting requirement of reports on or before July 1, 2015, and each January 1 thereafter until January 1, 2019. Additionally, the bill was amended to specify that the RRACE Team shall operate the pilot program using existing funding of the DOJ, FTB and BOE and shall not request additional funding until after making a final report to the Legislature on or before December 1, 2017. **The July 10, 2013 amendments** modified the legislative reports requiring the RRACE Team to a report on or before July 1, 2015, and each January 1 thereafter until January 1, 2019, on its activities and accomplishments.

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3. **Tax evasion from the underground economy hurts all Californians.** Those who operate in the underground economy enjoy the same public services as tax and fee payers without making the same contributions.
4. **Current efforts focus on labor issues.** JESF and LETF focus primarily on labor issues. The BOE is an active member of both partnerships. However, due to the need to primarily pursue underground labor issues, JESF and LETF investigations have not resulted in significant criminal tax evasion leads. THE RRACE Team has the expertise and specific resources to focus only on criminal tax evasion.
5. **The RRACE Team will focus on criminal prosecution.** Minor and inadvertent violations by businesses will be addressed through other administrative procedures.
6. **Suggested amendment.** Amend Section 1(a) to read:

(a) According to the ~~State Board of Equalization~~ UCLA Labor Center, an estimated ~~nine–8.5 billion dollars (\$9,000,000,000)–(\$8,500,000,000)~~ in corporate, personal and sales and use taxes ~~goes~~ remains uncollected in California each year, with unreported and underreported economic activity responsible for the vast majority of that total.

### **COST ESTIMATE**

The costs to work with FTB, EDD and DOJ to implement the RRACE Team are insignificant and absorbable.

### **REVENUE ESTIMATE**

A detailed revenue estimate is pending. The estimated revenues associated with the amendments will range from 10% to 25% of the previous estimates. Accordingly, the revenue for this proposal is adjusted to the following:

	<u>Previous Revenue Estimate</u>	<u>Adjusted Revenue Estimate</u>
FY 2013-14	\$550,321	\$55,000 - \$137,500
FY 2014-15	\$1.1 M	\$110,000 - \$275,000
Ongoing	\$15.3 M	\$1.5 M - \$3.8 M

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.

Analysis prepared by:	Larry Bergkamp	916-322-7281	09/04/13
Contact:	Michele Pielsticker	916-445-0840	

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